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NEA FOR IPA AND SEMEP; PASS NSC FOR KUMAR, OPIC FOR DRUMHELLER/GORAVANCHI; AID FOR BORODIN; AND USDOC/TDA FOR KRESS

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SUBJECT: NABLUS DEVELOPER ON AREA C CONSTRAINTS, PALESTINIANS' READINESS FOR MORTGAGES

REF: JERUSALEM 67

Classified By: CG Daniel Rubinstein, Reasons 1.4 (b) and (d)

¶1. (SBU) Summary. Palestinian private sector contacts and developers in Nablus report that a closed Israeli military road north of the city is preventing progress on 15 construction projects that would ease urban congestion and further develop Nablus's economy. Despite the constraints, the construction sector in the West Bank is showing healthy growth. One Nablus area housing developer called for a campaign to educate Palestinians about the benefits of paying interest to access capital as a critical component of any successful mortgage program. End Summary.

Construction Business Booming

¶2. (C) Nablus area developer Nasser Kamal told Econoff on February 8 that he has only recently started working in the West Bank again, lured back by double-digit growth rates in the construction sector. (The Palestine Central Bureau of Statistics reports growth of 31% in the sector from 2008 to 2009.) Kamal, who moved much of his business offshore to Dubai and Croatia after the start of the Second Intifada, is constructing a 60-unit middle-income apartment complex in Nablus, having completed and sold a luxury apartment building in Ramallah. His company, Byder Construction and Real Estate Development, also has plans for a 1,012-unit affordable housing development outside of Nablus, currently stalled due to Area C access issues.

Giving Nablus Room to Grow

¶3. (SBU) Nablus's growth is constrained on all sides by Israeli settlements and Area C land. The natural space for expansion lies to the north, a large swathe of land in Areas A and B stretching towards Jenin. However, a closed Israeli military road -- used twice daily to resupply a nearby Israeli military base -- cuts off access to this land, turning a five-minute commute from this area to the city center into a 30-minute drive along narrow, winding secondary roads. The lack of access renders the land untenable for residential development.

¶4. (C) Private sector contacts in Nablus have stressed the importance of opening up access to this land in order to give Nablus room to grow. Kamal estimated that 15 construction projects, including a Palestinian Authority teachers housing complex, have ground to a halt, some after substantial

infrastructure investment. Kamal has designed a tunnel under the military road and a separate Palestinian access road, and presented the proposal to the Israeli Coordinator of Government Activities in the Territories. The Nablus District Commander Office (DCO) told him that it was open to the idea, political pressure would be needed to secure permission. Note: There are similarities between this situation and the road/access issues required to connect the Rawabi development to Ramallah. End note.

Marketing Affordable Mortgages

¶ 15. (C) Kamal said that in promoting his 60-unit development in Nablus, he has learned that Palestinians outside Ramallah remain largely uninformed about the advantages of long-term borrowing. Ramallah residents, he said, were more cosmopolitan and had been exposed to the idea of paying interest to access capital. However, Nabulsis were more traditional and, in sharp contrast to his pre-market surveys, overwhelmingly rejected long-term mortgages because of the interest-to-principal ratio and fears about losing their home if they defaulted, he said. Note: The mortgages were offered at comparable rates to those that will be offered by the Affordable Mortgage and Loan Corporation -- 20 years fixed rate, 6.5% interest with 10% down. End note. In response, Kamal adjusted his payment plan back to the more traditional, monthly payments directly to the developer with the interest rolled in (and thus hidden), coupled with a short-term loan for the remaining principal. The response improved, he said, and he sold 30% of the apartments, enough to begin construction.

¶ 16. (C) Drawing on his experience with affordable mortgages, Kamal suggested that a consumer education campaign was essential to market the concept of mortgages in the West Bank beyond Ramallah. He noted that even with such a campaign, a positive response would take time.

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